



Lanka Rating Agency

Rating Report

Alliance Finance Company PLC - Green Bond

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Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
20-Nov-2024	A-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

Alliance Finance Company PLC ("AFC" or "the Company") is a Licensed Finance Company (LFC) listed on the Colombo Stock Exchange since 1959. It is a mid-sized player in the LFC industry with assets comprising ~3.4% of total industry. AFC adopted the Triple Bottom Line (TBL) philosophy in 2012 and plans to develop its products in line with these values driven to a sustainable business mandate. AFC's Net Interest Income (NIM) increased to LKR~1.8bln in 3MFY25 compared to LKR~1.0bln in 3MFY24, a growth of ~79.7% YoY. Similarly, AFC's net profit stood at LKR~917mln in FY24 and LKR~247mln in 3MFY25.

AFC plans to issue its first 3-year Green Bond (Up to maximum of LKR~1000mln face value), with proceeds exclusively funding eligible green projects focused on rooftop solar installations and financing solar equipment vendors in Sri Lanka. Deloitte Associates Sri Lanka will serve as the Independent External Verifier for this issuance. Seylan Bank PLC (SEYB), a Licensed Commercial Bank Rated "A-" (single A minus), is providing the financial guarantee that will cover the entire face value and two interest payments (up to maximum of LKR~1.135bln). The rating reflects the irrevocable and unconditional guarantee structure in place with bond holders having recourse to both AFC and SEYB in case of non-payment of interest or principal.

The Company has designed a mechanism to identify Solar Power and green projects. A cross-functional task force, including ESG and climate finance experts, oversees evaluations through feasibility studies and technical assessments. The Company will implement a governance framework to manage Green Bond proceeds, depositing funds in a separate account monitored periodically.

The rating depends on AFC's continued ability to achieve its strategic objectives while maintaining strong asset quality, sound financial management, sustainable leveraging and diversified funding base. Meanwhile, effectively managing Green Bond proceeds and implementing a strong framework will be critical from bond holder's perspective. Compliance with applicable guidelines and regulatory requirements for Green Bonds is important.

Disclosure

Name of Rated Entity	Alliance Finance Company PLC - Green Bond
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Debt Instrument Rating(Aug-24)
Related Research	Sector Study Leasing & Finance Companies(Aug-24)
Rating Analysts	Gayani Randima Ariyawansa gayani@lra.com.lk +94 114 500099



Leasing & Finance Companies

Lanka Rating Agency

Issuer Profile

Profile Alliance Finance Company PLC ("AFC" or "the Company") was incorporated as a public company in 1956 under the provisions of the Companies Ordinance No. 51 of 1938 and re-registered under the Companies Act No. 07 of 2007. It was listed on the Colombo Stock Exchange (CSE) in 1959. AFC is the oldest Finance Company in Sri Lanka, with 68 years in the industry. The Company formally adopted the Triple Bottom Line ("TBL") philosophy in 2012. The principal business activities include acceptance of fixed and savings deposits and granting term loans, gold loans, and other credit facilities, leasing, vehicle trading, and hiring services.

Ownership The largest shareholder of the Company is Mr. R K E P De Silva, with an ownership of ~36.87%. He is also the Deputy Chairman (DC) and Managing Director (MD) of the Company. Mr. R K E P De Silva was appointed to the Board of Directors (BoD) in 1990 and serves as a non-executive director in AFC's associate and subsidiaries. Mr. De Silva is a Fellow of the Institute of Credit Management. He also holds directorships in many companies. AFC currently does not require capital infusion. However, the sponsors are willing and able to provide financial support, if need be.

Governance The BoD has nine directors, out of which two are Independent Directors, one is Non Independent Non Executive and three are Executive directors. Mrs. Dharmakirti-Herath has led the Board members since 2020. The Executive directors have experience in Non-Banking Financial institutions (NBFI), investment banking, and marketing, both locally and internationally. The Non-executive directors possess a wealth of experience in sectors such as financial services, brand building, strategic planning, marketing and law. The Company has formed five Board sub-committees, namely, Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Related Party Transactions Review Committee (RPTRC), Human Resources and Remuneration Committee (HRRC), and Nomination & Governance Committee (NGC). The external auditors of the company, Deloitte, issued an unqualified audit opinion on the annual financial statements for FY24.

Management The BoD remains the head of the organization. Four divisions in the Company report directly to Mr. De Silva. Other departments report to Mr. De Silva through the relevant Executive Directors. The management team is headed by Mr. De Silva. The Managing Director is supported by a team of executive directors, Chief Experience Officers (CXOs), assistant general managers, and a team of managers for different functions and areas. The Company has a large corporate and middle management. They have acquired decades of experience in their respective careers. AFC has formed seven management committees to run the operations smoothly. The Company is planning to move into a new core banking system, i.e., Finacle core banking solution, Lime front-end workflow engine, and the Microsoft Dynamics system for the general ledger by FY25. The internal audit department follows a comprehensive audit plan where all branches are audited at least once a year, while the gold loan divisions are audited twice a year. The risk management division focuses mainly on credit risk, market risk, and liquidity risk.

Business Risk There are ~36 Licensed Finance Companies (LFCs) in Sri Lanka, out of which ~27 are listed on the CSE. The Profit After Tax (PAT) of LFC and Specialized Leasing Companies sector for 3MFY25 stood at LKR~11.3bln. The total asset base of the LFC sector stood at LKR~1.6tn and LKR~1.3tn in FY24 and 3MFY25, respectively. AFC is considered a medium-sized Licensed Finance Company and accounts for ~3.4% of the asset base and ~2.9% of the deposit base in the sector, as of FY24. AFC's net loans and advances account for ~3.8% of the loans and advances in the sector in FY24. AFC earned a net interest income of LKR~1.8bln (FY24: LKR~5.9bln), in 3MFY25, which is a ~79.7% increase since the same quarter of the previous financial year. Interest income improved by ~12.2% to LKR~3.4bln (FY24: LKR~13.2bln) in 3MFY25 compared to 3MFY24. Interest expense decreased by ~21.7% to LKR~1.6bln (FY24: LKR~7.3bln) in 3MFY25 compared to 3MFY24. The core spread was maintained at ~18.0% in 3MFY25 and ~16.7% in FY24 however it was at ~4.2% in FY23. The Company's PAT increased by ~279% to LKR~247.1mln in 3MFY25 from LKR~65.1mln in 3MFY24. This increase is due to growth in interest income and net fee and commission income. The PAT in FY24 improved by ~81.6% to LKR~916.9mln from LKR~505mln in FY23. The significant growth was due to the favorable external environment and the successful implementation of strategic initiatives. ROE and ROA as at 3MFY25 stood at ~12.2% and ~1.6% respectively. AFC is deeply committed to sustainability, reflected in its diverse product portfolio, which includes climate financing initiatives like Cinnamon Cultivators Development and Rooftop Solar Loans.

Financial Risk The Company has maintained a gross and net NPL of ~9.42% (FY24: ~9.38%) and ~5.49% (FY24: ~5.48%) respectively in 3MFY25. It has maintained gross and net NPL below industry levels over the periods. The Company increased its investments by ~12.1% in FY24 by increasing the investments in government securities. The Company is dependent more on deposits as it constitutes ~54% of its funding in 3MFY25. The Company's total borrowings include both local and foreign borrowings which consist of securitized borrowings and other facilities and bank overdrafts. Local borrowings accounted for ~82% of the total borrowings while foreign borrowings accounted for ~18%. The Capital Adequacy Ratio (CAR) of the Company stood at ~13.97% as of 3MFY25 (FY24: ~14.38%) which is above the regulatory requirement of the Central Bank of Sri Lanka (CBSL).

Instrument Rating Considerations

About The Instrument AFC intends to issue a 3-year Green Bond (Up to a maximum of LKR~1000mln face value). The discount rate will be determined based on the Sri Lankan Government Security (3-year Bond) Rate Plus Premium. The Green Bond is fully secured by Seylan Bank's (SEYB) Financial Guarantee and will cover the entire Face Value and two interest payments (Up to a maximum of LKR~1,135mln).

Relative Seniority/Subordination Of Instrument The claims of the Green Bond Holders shall in the event of winding up of the Company, rank after all the claims of secured creditors and preferential claims under any Statutes governing the Company but Pari Passu to the claims of unsecured creditors of the Company, however that the Green Bond Holders unlike the other unsecured creditors would be entitled to the benefit of the Guarantee which has been issued by the Guarantor and shall rank in priority to and over any subordinated debt of the Company and the ordinary and preference shareholders of the Company.

Credit Enhancement SEYB is providing unconditional and irrevocable Financial Guarantee in favor of the Trustee for the benefit of the Green Bond Holders, guaranteeing both interest and principal payments for up to two Interest Periods (Up to a maximum of LKR~1,135mln).



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Alliance Finance Company PLC

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Jun-24

Mar-24

Mar-23

Mar-22

3M

12M

12M

12M

A BALANCE SHEET

1 Total Finance-net	46,038	43,471	35,400	40,472
2 Investments	4,844	4,142	3,564	1,913
3 Other Earning Assets	8,293	5,024	5,572	1,201
4 Non-Earning Assets	5,016	4,905	4,109	4,724
5 Non-Performing Finances-net	2,741	2,633	3,603	(171)
Total Assets	66,932	60,175	52,248	48,140
6 Funding	55,082	48,698	43,047	38,107
7 Other Liabilities	3,774	3,348	2,243	3,352
Total Liabilities	58,856	52,046	45,290	41,459
Equity	8,077	8,129	6,958	6,681

B INCOME STATEMENT

1 Mark Up Earned	3,440	13,185	11,947	7,852
2 Mark Up Expensed	(1,597)	(7,298)	(7,411)	(2,651)
3 Non Mark Up Income	216	712	422	518
Total Income	2,059	6,599	4,957	5,719
4 Non-Mark Up Expenses	(1,189)	(3,944)	(3,385)	(2,776)
5 Provisions/Write offs	(212)	(336)	(275)	(103)
6 Reversals	12	47	73	78
Pre-Tax Profit	670	2,366	1,370	2,918
7 Taxes on Financial Services	(203)	(669)	(419)	(555)
Profit Before Income Taxes	466	1,698	951	2,364
8 Income Taxes	(219)	(781)	(446)	(901)
Profit After Tax	247	917	505	1,463

C RATIO ANALYSIS

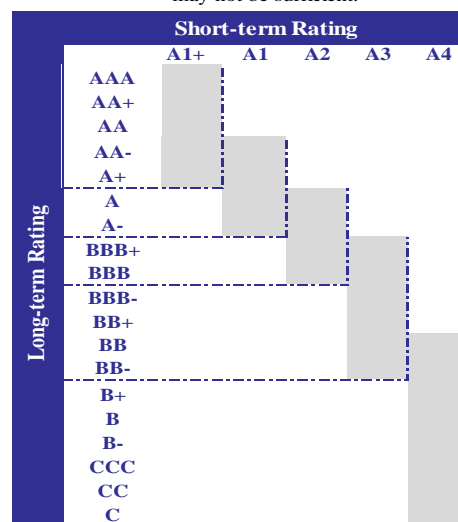
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	57.8%	59.8%	68.3%	48.5%
b ROE	12.2%	12.2%	7.4%	23.4%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	92.3%	98.5%	94.7%	110.2%
b Accumulated Provisions / Non-Performing Advances	42.7%	41.5%	32.6%	111.2%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	22.9%	16.6%	21.0%	7.9%
b Borrowings from Banks and Other Financial Institutions / Funding	44.4%	41.7%	52.4%	59.2%
4 MARKET RISK				
a Investments / Equity	60.0%	50.9%	51.2%	28.6%
b (Equity Investments + Related Party) / Equity	6.9%	7.0%	3.9%	3.8%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	12.1%	13.5%	13.3%	13.9%
b Capital formation rate (Profit After Tax - Cash Dividend) / Equity	12.2%	9.1%	5.0%	20.5%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (LKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets as at 6MFY25 (LKR)
LISTED, RATED, GUARANTEED SENIOR REDEEMABLE GREEN BONDS	1000MN	3 YEARS	GUARANTEED BY SEYLAN BANK	100%	N/A	HNB	66,932MN

Name of Issuer	ALLIANCE FINANCE COMPANY PLC
Issue Date	TBD
Maturity	3 YEARS
Coupon Basis (Tentative)	3-year T. Bond Rate Plus Premium*
Repayment	AT MATURITY
Option	N/A

Alliance Finance PLC - Green Bond

Due Date Principal	Opening Principal	Principal Repayment	Coupon Due Date	Fixed Rate	Coupon	Principal Outstanding		
	LKR				YYYY-MM-DD	LKR		
Type A					Fixed			
PROPOSED	1 BILLION	AFTER 3 YEARS	TBD	TBD	TBD	-		